American University of Iraq-Sulaimani

Comparison key factors between the success of Baghdad bank and the failure of North bank in Iraq

MBA Thesis

By

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Executive Summary

In Iraq, after 2014, more banks have failed because Iraq has been facing economic problems since that time in certain sectors such as agriculture, oil, gas and commercial real estate.

In this study case, I will be discussing two banks, North Bank and Baghdad Bank. North bank is the one which has failed and Baghdad Banks has succeeded. In this study, the reasons of failure and success of the two banks will be introduced. The study will show that isolating such factors helps identify banks likely to fail and strengthen its ability to supervise and to help prevent other banks from failing.

It will also show that while economic problems make it more difficult for a bank to direct a profitable course, the policies and producers of a bank’s management affect the bank to either success or fail.

Central Bank of Iraq (CBI), evaluated that acting poorly in management has played a big role in the decrease of 90% bank’s failures. CBI also states that “many of the difficulties the banks experienced resulted from inadequate loan policies, problem loan identification systems, and systems to ensure compliance with internal policies and banking law. Moreover, insider abuse and fraud were significant factors in the decline of more than one-third of the failed and problem banks. Much of that insider abuse or fraud involved directors, senior management, or principal shareholders or was related to their failure to provide adequate oversight and controls.”

This paper presents the findings of our study. It identifies the weaknesses that appear to be most powerful on a bank's failure and evaluates the main factors that differentiate banks that fail from those that do not, even when economic plays poorly in that environment.
1.1 Banking industry in Iraq

Rafidain Bank was a first bank that was established in 1941, in Iraq, and it was controlled by the Iraqi federal government. Iraqi people have dealt with only Rafidain Bank for fifty years because there weren’t any other banks in Iraq until 1990 because only Rafidain Bank was allowed to deal with money as a bank no other sectors such private or foreign financial institutions in Iraq, (Irfaq, 2015).

The bank system in Iraq was owned by the government until late 1990 but then the president of Iraq, Saddam Hussein, permitted license to private banks in Iraq during the late of 90s (Al Sayegh, 2011, para. 12). Based on U.S. Department of State (2013), 96% of Iraq’s banking assets are managed by state-owned banks.

Iraq is one of developed countries with a good banking system structure in the world. The total banks in Iraq is 57 banks and it is classified to four categories which seven of them are governmental banks, 24 are private banks, 8 are Islamic banks, and the other 18 foreign banks (CBI, 2015). Baghdad and North bank are private banks in Iraq. Appendix 1 provide Iraq banking System Structure in 2015

The central bank governs the overall banking sector in Iraq. The Trade bank, Kurdistan and Baghdad bank are the three major banks which have the maximum operations in Iraq. Iraqi Banks capital grew in Iraq from 9.1 trillion IQD in 2014 to 10.1 trillion IQD in 2015 rising for the comparison period at an amount of 1 trillion IQD. The Total (private banks) capital ratio and market value of banks traded stocks in Iraq securities market to GDP, amounted to (2.8%) , 1.8%) respectively, this ratio is still low, those indicators show the deep financial weakness of the Iraqi banking system. Also The Gross Domestic Product (GDP) in Iraq was 2.40 percent in 2015 from the previous year. And the GDP Annual Growth Rate in Iraq averaged 7.65 percent from 1991 until 2015 (tradingeconomics, 2017). Appendix 2 shows CBI statement of
comprehensive income year ended December 31, 2015, and Appendix 4 shows Iraqi Gross Domestic Product (GDP) for 2006 to 2016.

Deposits are considered the most important source of finance for banks. The Private sector deposits in Iraq (with both governmental and private banks) accounted for 10.3% of GDP as in year end 2015 which amount to 19.9 trillion IQD which indicates the continued weakness of financial depth which does not help in building a strong and solid financial sector (CBI, 2015).

1.2 The role of Central Bank of Iraq

The main goal of the Central Bank of Iraq (CBI) is checking the stability of domestic price and enhances competitive market based on financial system in the country; also it makes more stable. The Center Bank of Iraq also helps sustainable growth, employment, and prosperity in Iraq (CBI, 2012). Appendix 3 Central Bank of Iraq Statement of financial position as of December 31, 2015

1.3 Strengths and Weaknesses of Iraqi Banks

A. The strengths of Iraqi banks include:
   1. under-banked population,
   2. The foreign exchange reserves is high in the Iraq Market
   3. GDP growth over the medium-term is high
   4. Large financing needs and several sectors with high growth potential (Sélim Haddad, 2013).

B. While the weaknesses are :-
   1- Immature banking sector
   2- the dominance of state-owned banks
   3- weak financial infrastructure, still weak supervision,
Baghdad and North Bank Performance in Iraq Stock Exchange (ISX) During 2015 and 2016

Baghdad Bank (BBOB) was the 4th largest bank among the listed banks on the Iraq Stock Exchange (ISX) for 2015. With IQD197.5bn ($153.1mn), recorded IQD18.2bn loss before tax in fourth quarter 2015 compared to IQD5.9bn profit before tax in third quarter 2015, and IQD9.2bn profit before tax in third quarter 2015, and IQD9.2bn profit before tax in Fourth quarter 2015 mainly due to the jump in net other expenses in Fourth quarter 2015 to IQD24.1bn (Ahmed, 2016).

Banking operating revenues increased by +3% year/year to IQD15.5bn in fourth quarter 2015 which mainly on the back of the increase in revenue obtained from foreign exchange (FX) transactions. Banking operating expenses increased by 99% y/y to IQD4.6bn, while this growth in banking operating expenses more than offset the growth in banking operating revenues (Ahmed, 2016).

North bank was one of best bank among the listed banks on the Iraq Stock Exchange (ISX) until 2013 in terms of deposits (IQD 1,241bn) and assets (IQD 1,608bn) as end of September 2013. But after ISIS attack, North Bank was affected on of the situation financially in terms of deposits (IQD 429bn) and assets (IQD 850bn) as end of September 2015. The graph below shows the price stock market of North Bank from 2009 until 2017 (Hassib, 2015). North Bank was one of the banks that been has affected by the situation in Iraq after 2014 and it has internal problems which led it be worth in finical. Appendix 8 shows the net income rating for Iraq banks duration 2014 to 2016
The table below shows the net income rating for Baghdad bank and North bank

<table>
<thead>
<tr>
<th>Company Name (ISX Code)</th>
<th>Net Banking Income (NBI)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Bank of Baghdad (BBOB)</td>
<td>63,091</td>
</tr>
<tr>
<td>North Bank (BNOR)</td>
<td>50,379</td>
</tr>
</tbody>
</table>

A. Profit Before Tax Performance

In the end of 2015, Baghdad Bank has increased its Profit before tax compare to the end of 2014, the Profit before tax was 31.5bn in a percentage is % 33 increases, but in 2016 the Profit before tax for Baghdad bank decreased to 19.7bn. However, North bank for 2015 and 2016, its Profit before tax has decreased. The percentage of decrease in 2015 was -70% and for 2016 was -23%. The appendix 5 shows Profit before tax growths of ISX 22 banks in Iraq during 2014 to 2016

B. Balance Sheet Performance

The Assets growth for Baghdad bank declined in 2015 and 2016 but the decline is smooth because Iraq economic recession, the percentage of decline in 2015 is -9% and in 2016 is
-3%. However, the Assets growth for North bank also declines more sharply. The percentage of the decline is -43% in 2015 and -23% performance. The appendix 5 shows Assets growths performance of ISX 22 banks in Iraq during 2014 to 2016

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**Assets growths**

The deposit growth for Baghdad and North bank declined for years 2015 and 2016, and they were approximately on same trend. Appendix 7 shows Deposit growths performance of ISX 22 banks in Iraq during 2014 to 2016

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**Deposit growths**
The Key Factors Caused North Bank’s Failure and Baghdad Bank’s Success:

1. Board of Directors and Management

The board and management lacked essential banking knowledge which caused them to not get enough information to solve problems correctly (Robert, 1988).

The board responsibilities in banks are the following:

- Should ensure experienced management.
- Determine good plans and policies for the bank
- Monitoring bank operations to ensure sufficient internal controls and compliance with viable laws and rules.
- Supervise business performance of the bank
- Checking bank serves and what credit wants for community.

North Bank had bad management system, and these points happened

- Load policies didn’t followed well
- The decisions made by individual group members of the board or by chairman
- Asset and liability management policies did not follow well
- Insufficient controls of the bank

2. Debt (lending) policies for the banks

According to the financial supervisor about the borrowers for North bank (Adel, 2016):

A. The total amount of delayed borrow is about IQD 1,597 billion and most of them are without cover
B. The total amount of delayed debt is IQD 49,246 billion, most of them are in the courts, and the amount of IQD 37,733 billion are with weak cover.

C. Insurance letter for IQD 9,124 billion, and all of them have been put them in court to get the bank rights.

D. Credits delayed payment by IQD 18,973 billion; some of them are documents without insurance.

E. The provision for doubtful debts increased by BD 421 million to 45.425 billion at the end of 2015, according to the maturity of the guidance document.

However, Baghdad Bank made a better insurance for payments and debts. Baghdad Bank also made a study about how they can guarantees payment advance by customers for provision for doubtful debts, and they found the possible solutions to collect outstanding debts. For example, the bank still has property with the number (1474/324), Al Batawain Building, and the cost of the building on the bank was IQD 961 million; however; it’s almost two years that they want to sell the building but they cannot because of recession crisis that Iraq has faced since 2014; nevertheless the bank could rent the building by IQD 23 million per year.

3. Loan Identification System and Bank Strategy

For a successful bank, the board of management should be always aware of bank loans which have deteriorated, also they should ask furthermore documentation, to control and reduce the risks.

North Bank Accounting Policies Are:

1. For the first time in the history of the bank, North bank made losses because of financial results of 2015. The opinion of financial supervisor was compatible with our opinion that; the losses in 2015 was due to the focusing of bank to provide liquidity to the request of
people, and not focus on the auction of currencies done by ICB (Iraqi Central Bank) in 2015 (Adel, 2016).

2. According to the financial supervisor, there was accumulation of old mistakes which being obstacles to continue the work of bank

3. The opinion of the financial supervisor was positive regarding the internal checking and the process we follow for money launderings

Baghdad Bank Accounting Policies Are:

1. Calculating both revenues and expenses during the year according to the principle “Merit”

2. The bank depends on their accounts, financial statements, and insurance companies

3. Rate of foreign currency conversion

4. **Political and Legal Environment** (Inside abuse or fraud)

   One of the main key factors that led North bank to fail was the top management abuse on the money for the bank. As a breach of one of the main instructions of the central bank, especially article (31) “Appendix10 shows Article (31) of the Banking Law No. (94) In 2004” which is about giving especial insurance to the executive members of the board and to high level relationship people, North bank issued these transactions:

   A. Providing the amount IQD 194 billion as money insurance to a company belong to Mr. Naji Ezzat Jaff, who is represent the CEO deputy of North Bank

   B. Opening a current deposit account with an amount of IQD 355 billion for the members board (with no details)
C. Giving two companies belong to high level relationship person of the board open debt about IQD 4 billion to each companies

D. Finding weakness in the control procedures by insurance department, through lack of the follow up procedures and get the money back from all the branches of the bank. As well as weakness in the process of getting insurance from the debt that given by the bank.

Baghdad bank succeeded for preparing financial statements in accordance with international accounting standards and financial disclosure standards that lead the bank to growth the business internationally through documentary credits, so the growth for Baghdad bank helped to have a good image and many global companies interest to work with the bank.

5. **Excessively Aggressive Activity by Board of Management**

North Bank board of Management was Aggressive Activity. The lending and operating practices of North bank reflected these problems.

1. They made incorrect lending policies
2. They depend so much on volatile liabilities
3. The second source of liquidity was insufficient assets

6. **Competitive Advantage**

“Competition is at the core success or failure for the banks. Competition shows the appropriateness of bank activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. The fundamental basis of long run success of a bank is the achievement and maintenance of a sustainable Competitive Advantage”, (Varadarajan and Jayachandran, 1999).
The Competitive Advantages for the Banks Are:-

A. Technology

Technology is today's globally known as key controller of the national economic growth of any country, Baghdad bank aware about impotency of technology for the bank business, so the bank has provided ATM service to customers since 2009. In 2015 the number of ATMs reached 43 numbers and it redistributed over all the country and Baghdad bank focus on Information Technology (IT) (Ali, 2015). Because

I. Customers believe that technology delivers a quicker and more efficiently service than the employee. Also many time transactions occur in a neutral location, and it may be not always an employee is an availability to do transactions for customers but in IT service transaction (ATM, internet) operates 24 hours a day seven days a week.

II. When customers use technology such as ATM, internet banking for transaction, it will be greater control because they contact directly with the technology. But when customers use indirect for example telephone banking, the bank will not control transaction.

The big advantage that Baghdad bank compete other competitors is that his customers have different services and they are free to choose technology as a form of service delivery. However the bank still needs to develop more information technology in the system like introducing internet and mobile banking with new features.

Also Baghdad bank continuously improves the efficiency and effectiveness of the staff by implementing information technology based service delivery systems. As a result Baghdad bank has enhanced the processes and policies of information technology, also the bank puts
mechanisms to make sure that the systems are always upgraded to improve revenue collection and guard against frauds.

As a part of improving Baghdad bank’s services to customers, they issued the following services:

1. Launching ATM service since 2008
2. Launching Visa and Master Cards, Baghdad bank is one of the main provider for these cards
3. Launching Mobicash service in 2009, which enable the customer to charge there mobiles and to check their balance.
4. In 2012, they launched Keycard service for employ’s salary service.

Baghdad Bank ambitious is not stopped in this level; they have planned to expand the ATM machines as well as other services for better customer satisfactions in nearly future(Ali, 2015).

However, the north bank also focused on technology but it didn’t play as well as Baghdad bank did. North Bank used technology for:-

1. Created a website to answer all questions and customer’s ask
2. Continuously using system (SWIFT) which do transfer international money
3. Using internet like ADSL, VAST for SWIFT system
4. Using NOTES LOUTS software. This software do exchange official mails between the banks and central Iraq bank
5. Using ORIN FINANCE Program that connect all the bank branch to head quarter to get data information through online with secure network
B. Human Resources

Human assets are the main critical success factor in the banking industry. Also Human resources will show whether an organization is rigid or innovative. Baghdad bank aware about how Human Resources will effect on the success of the bank, so beside of the increase in number of employee for the bank, Baghdad bank gives training with participated programs that help to improve quality and quantity of employee and organizations profitability tremendously because employees will open up their minds for new ideas and growth of knowledge (Ali, 2015). Also the bank hires the right people on the right job is important and instilling the spirit of customer focus can ensure survival in the banking industry.

The number of employees in North Bank decreased to 559 in the beginning of 2016 when it was 766 in the end of 2014, also North Bank tried to reduce expenses due to the financial situation for the bank in 2015, and the bank made low administrative expenses (training travel and advertising).

C. Marketing

Baghdad Bank continued their productive and initiative ideas which gained a lot of success, one of them was as a part of building our country, and they focused on financing small and medium businesses. This idea was welcomed by everyone, and in the result, there was increase in business size and the bank gained a lot of new clients. Now they are continuing their discussion with individuals and companies to improve the productivity part of the work for future prosperity (Ali, 2015).
Regarding North Bank did not make a good marketing plan during last two years, so all the branches of the bank have achieved losses of business in 2015, except the main branch, where it made a profit of 14 billion dinars.

D. Service Distribution

Baghdad Bank redistributed the branch over whole the country, and it has 41 branches include Beirut Bank and the branches are connected by a secure network and it works based on bank strategy policy. However, the bank also thinks about location for each brunch because it is very important and the wrong location may spell death for the brunch bank (Ali, 2015).

Conclusion

Because of its environmental factors, Iraq plays an ideal origin for banks. However, because of the instability in the financial systems, Iraqi people feel uncertain about Iraqi banks. People in Iraq have negative impression on Iraq Banks because of the corruption and fraud in the central as well as private sector banks. Beside of that, the political situation and security threats also are the causes of people’s trust on the banks. It is estimated that less than 10% of Iraqi people use bank accounts for their dealings.

Central Bank of Iraq (CBI) has framed legal rules to increase productivity of banking sector in the Iraqi economy. The rise of inflation is one of the main issues which are faces by the users of banking sector regardless of the rise in GDP because of some factors such as socio-economic and cultural factors.

In a technology term, Iraq does not play a good role, but it can give a chance to the banks that there is an increase in the telecom and IT industry. Now, many banks are making their users
be familiar with internet and mobile banking, and also ATM machines are being connected openly to satisfy their customers which cause an increase in the number of clients.

The Failure of North Bank Can Be Clarified by Several Factors:

1. The Board failed to implant a culture within the bank that lead to balance risk and return appropriately. They couldn’t do that because of the lack of experience and knowledge of banking.
2. The outcome was a defective and unstable strategy arising from an extreme concentrate on provide liquidity to the request of people, and not focus on the auction of currencies done by ICB
3. There was a disappointment by the Board and control functions to change strategy of the bank after the bank faced crisis
4. The weaknesses of the balance sheet led the bank high vulnerable to market shocks, so the bank couldn’t resist a crisis of the financial system that happened in 2014.

The successful factors of Baghdad Bank are:

1. Marketing Position
2. Infrastructure and Quality of service
3. Management and Human Resource
4. Capitalization and Asset Quality with Profitability
5. Service Distribution
6. Strategy of the bank
Recommendations

- Iraqi banks should bring improvement and creations in their products and also service delivery, and this can be reached by a study of customer behavior in Iraq. (Davenport 2006).

- Iraqi banks must provide a good and active mobile banking service to keep their customers because only introducing internet and mobile banking is not satisfactory. One of the studies showed that “e-banking or mobile banking brings 51% increased customer loyalty to their bank or constructing body.” David Webber, MD of Intelligent Environments, said: “A fast jump of technology development has created diversity in arithmetical networks for organizations to grasp and manage associations with their clienteles.”

- The staff members of the banks should be trained very well about bank systems and structures to overcome the lack of their knowledge and skills.

- “Using Customer Relationship Management (CRM), appointment of young employees with fresh and creative minds with expertise in latest technology, as a matter of choice is desirable to survive in the globalized market.”

- The Board directors of the banks should hire non-executives with experience, from inside and outside the banking sector.

- When a bank effects on economic downturn or a dislocation in wholesale funding market. It is because of an imperfect strategy which was actualized without due respect to fundamental measures of basic standards of banking and risk management. The whole board member should take responsibility as part of a collective for ensuring that its business model is sustainable and that the principle of safety and soundness is embedded in the organization’s culture.
Appendix 1

Banking System Structure

The Central Bank of Iraq

State-owned Banks
- Rafidain Bank
- Rasheed Bank
- The Industrial Bank
- The Agricultural Bank
- The Real Estate Bank
- The Bank of Iraq
- Trade Bank of Iraq

Private Banks
- Bank of Baghdad
- Iraq Commercial Bank
- The Iraq Investment Bank
- United Investment Bank
- Dar es Salaam
- Al Bilad Islamic
- Cihan
- Babylon Bank
- Vakif Bank
- NMC Bank
- NMCF Bank
- North Bank

Islamic Banks
- Iraqi Islamic
- Emirat Islamic
- Islamic Cooperation
- Al Bilad Islamic
- Islamic Cooperation
- Adil
- Emirat

Foreign Banks
- Arab Banking Corporation (Bahrain)
- Turkish Agricultural Cooperation
- Bank Melli in Iran
- Lebanese Dhi Shin Bank
- Intercontinental
- Banque LibanoFrancaise
- Turkish Asia Bank
- Turkish Al Baraka Bank
- Banque LibanoFrancaise

Emerald
- Mobil Bank for Investment
- Union Bank
- Erbil

Bank of Iraq
- Trade Bank of Iraq
Appendix 2

CENTRAL BANK OF IRAQ

STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED DECEMBER 31, 2015

<table>
<thead>
<tr>
<th></th>
<th>2015 IQD Million</th>
<th>2014 IQD Million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>435,653</td>
<td>329,490</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(64,079)</td>
<td>(70,922)</td>
</tr>
<tr>
<td>Net Interest income</td>
<td>371,574</td>
<td>258,568</td>
</tr>
<tr>
<td>Net fee and commission income</td>
<td>571,346</td>
<td>1,236,292</td>
</tr>
<tr>
<td>Gold revaluation loss</td>
<td>412,379</td>
<td>200,066</td>
</tr>
<tr>
<td>Foreign currency translation loss</td>
<td>1,228,792</td>
<td>2,683,004</td>
</tr>
<tr>
<td>Other income</td>
<td>16,536</td>
<td>3,297</td>
</tr>
<tr>
<td><strong>Gross loss</strong></td>
<td>(681,715)</td>
<td>(1,384,913)</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees expenses</td>
<td>(39,281)</td>
<td>(28,255)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(68,297)</td>
<td>(91,391)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(11,368)</td>
<td>(4,716)</td>
</tr>
<tr>
<td>Loss from derecognizing IMF accounts</td>
<td>(228,9470)</td>
<td>-</td>
</tr>
<tr>
<td>Loss from terrorism acts</td>
<td>-</td>
<td>(687,088)</td>
</tr>
<tr>
<td><strong>Loss FOR THE YEAR</strong></td>
<td>(1,029,608)</td>
<td>(2,196,363)</td>
</tr>
<tr>
<td><strong>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</strong></td>
<td>(1,029,608)</td>
<td>(2,196,363)</td>
</tr>
</tbody>
</table>
# Appendix 3

**Central Bank of Iraq**

Statement of financial position as of December 31, 2015

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2015 IQD Million</th>
<th>2014 IQD Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold reserve</td>
<td>3,627,247</td>
<td>4,039,626</td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>4,511,665</td>
<td>10,039,356</td>
</tr>
<tr>
<td>Due from banks and other financial institutions</td>
<td>16,369,485</td>
<td>16,430,509</td>
</tr>
<tr>
<td>Held to maturity investments</td>
<td>38,613,909</td>
<td>45,192,610</td>
</tr>
<tr>
<td>Loans to commercial banks</td>
<td>7,500</td>
<td>-</td>
</tr>
<tr>
<td>Due from Ministry of finance</td>
<td>8,580,912</td>
<td>2,455,520</td>
</tr>
<tr>
<td><strong>Foreign currencies investments at international</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monetary Fund</td>
<td>-</td>
<td>2,854,863</td>
</tr>
<tr>
<td>property and equipment Net</td>
<td>191,942</td>
<td>182,610</td>
</tr>
<tr>
<td>Inlangible assets ,Net</td>
<td>10,787</td>
<td>6,936</td>
</tr>
<tr>
<td>Other assets</td>
<td>562,268</td>
<td>405,133</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>72,475,715</td>
<td>81,607,163</td>
</tr>
</tbody>
</table>

**LIABILITIES AND EQUITY**

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>2015 IQD Million</th>
<th>2014 IQD Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency issued</td>
<td>38,585,119</td>
<td>39,883,686</td>
</tr>
<tr>
<td>Treasury bills issued</td>
<td>1,080,130</td>
<td>853,399</td>
</tr>
<tr>
<td>Deposits of local banks and other financial institutions</td>
<td>24,284,967</td>
<td>31,697,751</td>
</tr>
<tr>
<td>Due to foreign governments and banks</td>
<td>39,799</td>
<td>39,909</td>
</tr>
<tr>
<td>Due to international Monetary Fund</td>
<td>*</td>
<td>3,753,163</td>
</tr>
<tr>
<td>Due to governmental institutions</td>
<td>5,929,109</td>
<td>2,004,003</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>120,004</td>
<td>127,057</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>70,239,128</td>
<td>78,340,968</td>
</tr>
</tbody>
</table>

**EQUITY**

<table>
<thead>
<tr>
<th>EQUITY</th>
<th>2015 IQD Million</th>
<th>2014 IQD Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>1,000,000</td>
<td>100,000</td>
</tr>
<tr>
<td>General reserve</td>
<td>1,462,461</td>
<td>4,358,758</td>
</tr>
<tr>
<td>Emergency reserve</td>
<td>1,089,690</td>
<td>1,089,690</td>
</tr>
<tr>
<td>Gold revaluation reserve</td>
<td>698,335</td>
<td>285,956</td>
</tr>
<tr>
<td>Accumulated losses</td>
<td>(617,229)</td>
<td>(1,996,297)</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td>2,236,587</td>
<td>3,266,195</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY</strong></td>
<td>72,475,715</td>
<td>81,607,163</td>
</tr>
</tbody>
</table>
Appendix 4

The Gross Domestic Product (GDP) of Iraq
Appendix 5

Profit before tax growths of ISX listed banks in Iraq for 2015 and 2016

Profit before tax growths of ISX listed banks in 9M15 compared to 9M14 (y/y)

Profit before tax growths of ISX listed banks in 9M16 compared to 9M15 (y/y)
Appendix 6

Assets growth performance of ISX listed banks in Iraq for 2015 and 2016

Assets growth performance of 22-ISX listed banks in 9M15 compared to 9M14 (y/y)

Assets growth performance of 22-ISX listed banks in 9M16 compared to 9M15 (y/y)
Appendix 7

Deposit growth performance of ISX listed banks in Iraq for 2015 and 2016

Deposits growth performance of 22-ISX listed banks (IQD Bn) in 9M15 compared to 9M14 (y/y)

Deposits growth performance of 22-ISX listed banks (IQD Bn) in 9M16 compared to 9M15 (y/y)
Appendix 8

The net income rating for Iraq bank duration 2014 to 2016

The net income rating for Baghdad bank is good compare to 21 banks in Iraq as shows in the table below (Ahmed, 2016).

<table>
<thead>
<tr>
<th>Company Name (ISX Code)</th>
<th>2014</th>
<th>2015</th>
<th>Y/Y Chg</th>
<th>3Q15</th>
<th>2Q16</th>
<th>3Q16</th>
<th>Q/Q Chg</th>
<th>Y/Y Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashur Bank (BASH)</td>
<td>20,362</td>
<td>29,136</td>
<td>43%</td>
<td>5,412</td>
<td>7,384</td>
<td>2,812</td>
<td>-62%</td>
<td>-48%</td>
</tr>
<tr>
<td>Babylon Bank (BBAY)</td>
<td>12,065</td>
<td>10,386</td>
<td>-14%</td>
<td>1,186</td>
<td>3,291</td>
<td>4,881</td>
<td>48%</td>
<td>312%</td>
</tr>
<tr>
<td>Bank of Baghdad (BBOB)</td>
<td>63,091</td>
<td>66,245</td>
<td>5%</td>
<td>14,261</td>
<td>17,912</td>
<td>11,549</td>
<td>-36%</td>
<td>-19%</td>
</tr>
<tr>
<td>Commercial Bank (BCOI)</td>
<td>17,629</td>
<td>17,553</td>
<td>0%</td>
<td>3,926</td>
<td>3,971</td>
<td>4,484</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Dijlah &amp; Furat Bank (BDFD)</td>
<td>8,247</td>
<td>54,277</td>
<td>558%</td>
<td>3,536</td>
<td>1,426</td>
<td>1,384</td>
<td>-3%</td>
<td>-61%</td>
</tr>
<tr>
<td>Dar Es Salam Bank (BSDI)</td>
<td>26,241</td>
<td>20,970</td>
<td>-20%</td>
<td>3,059</td>
<td>3,962</td>
<td>8,816</td>
<td>123%</td>
<td>188%</td>
</tr>
<tr>
<td>Elaf Is Lamic Bank (BELF)</td>
<td>15,047</td>
<td>20,970</td>
<td>-20%</td>
<td>3,059</td>
<td>3,962</td>
<td>8,816</td>
<td>123%</td>
<td>188%</td>
</tr>
<tr>
<td>Gulf Com Bank (BGUC)</td>
<td>56,750</td>
<td>32,362</td>
<td>-43%</td>
<td>10,383</td>
<td>14,397</td>
<td>3,892</td>
<td>-3%</td>
<td>-61%</td>
</tr>
<tr>
<td>Investment Bank (BBI)</td>
<td>48,825</td>
<td>30,841</td>
<td>-28%</td>
<td>8,104</td>
<td>4,697</td>
<td>5,165</td>
<td>10%</td>
<td>-36%</td>
</tr>
<tr>
<td>Islamic Bank (BIB)</td>
<td>17,718</td>
<td>18,271</td>
<td>3%</td>
<td>3,506</td>
<td>3,521</td>
<td>3,172</td>
<td>-21%</td>
<td>0%</td>
</tr>
<tr>
<td>Iraqi Mid East B (BIME)</td>
<td>22,806</td>
<td>25,346</td>
<td>11%</td>
<td>6,714</td>
<td>10,838</td>
<td>6,847</td>
<td>-37%</td>
<td>2%</td>
</tr>
<tr>
<td>Kurdistan Int Bank (BKUI)</td>
<td>61,908</td>
<td>65,976</td>
<td>7%</td>
<td>21,641</td>
<td>25,392</td>
<td>16,573</td>
<td>-35%</td>
<td>-23%</td>
</tr>
<tr>
<td>Mosul Bank (BMFI)</td>
<td>8,013</td>
<td>6,828</td>
<td>-15%</td>
<td>1,930</td>
<td>1,650</td>
<td>2,044</td>
<td>24%</td>
<td>6%</td>
</tr>
<tr>
<td>Mansoure Bank (BMNS)</td>
<td>27,761</td>
<td>30,597</td>
<td>10%</td>
<td>8,723</td>
<td>6,290</td>
<td>5,577</td>
<td>-11%</td>
<td>-36%</td>
</tr>
<tr>
<td>National Islamic Bank (BNAI)</td>
<td>43,984</td>
<td>41,424</td>
<td>-6%</td>
<td>8,115</td>
<td>7,429</td>
<td>4,37</td>
<td>-9%</td>
<td>-40%</td>
</tr>
<tr>
<td>National Bank (BNIO)</td>
<td>27,361</td>
<td>28,569</td>
<td>4%</td>
<td>2,429</td>
<td>12,553</td>
<td>11,195</td>
<td>-11%</td>
<td>162%</td>
</tr>
<tr>
<td>North Bank (BNOR)</td>
<td>50,379</td>
<td>55,502</td>
<td>9%</td>
<td>5,365</td>
<td>5,215</td>
<td>2,684</td>
<td>-49%</td>
<td>-50%</td>
</tr>
<tr>
<td>Credit Bank (BROI)</td>
<td>23,649</td>
<td>21,460</td>
<td>-9%</td>
<td>5,061</td>
<td>3,819</td>
<td>2,370</td>
<td>-38%</td>
<td>-53%</td>
</tr>
<tr>
<td>Sumer Bank (BSUC)</td>
<td>7,232</td>
<td>9,307</td>
<td>29%</td>
<td>2,505</td>
<td>3,340</td>
<td>2,039</td>
<td>-15%</td>
<td>13%</td>
</tr>
<tr>
<td>Trans Iraq Bank for Inv (BTRI)</td>
<td>12,212</td>
<td>17,727</td>
<td>45%</td>
<td>6,403</td>
<td>3,016</td>
<td>6,040</td>
<td>100%</td>
<td>-6%</td>
</tr>
<tr>
<td>United Bank (BNUD)</td>
<td>41,436</td>
<td>42,834</td>
<td>3%</td>
<td>10,207</td>
<td>4,142</td>
<td>6,535</td>
<td>58%</td>
<td>-36%</td>
</tr>
<tr>
<td>Union Bank (BUOI)</td>
<td>36,611</td>
<td>14,267</td>
<td>-61%</td>
<td>5,032</td>
<td>5,731</td>
<td>7,861</td>
<td>37%</td>
<td>56%</td>
</tr>
<tr>
<td>Total/Growth</td>
<td>649,327</td>
<td>610,715</td>
<td>-6%</td>
<td>141,715</td>
<td>152,903</td>
<td>119,689</td>
<td>-22%</td>
<td>-16%</td>
</tr>
</tbody>
</table>
Appendix 9

Summary report of North bank in 2015

1. North bank lost 5,532 Million Dinar during 2015

2. Because of Iraq situation and status of the bank, customers withdraw their deposit. It reached 60% (in beginning 2015 was 1.079 Million Dinar but it was reach 437 Million Dinar at the end of 2015)

3. The balance sheet of the bank with external banks showed a debit balance with the Beirut Bank, equivalent to 119 million dinars, and the Bank of Lebanon and the Gulf with 1,503 million dinars

4. Shareholders' equity decreased by 5.532 billion Dinars as a result of the loss bank achievement to 329,116 billion Dinars.

5. Number employee for North bank decreased to 559 in the beginning of 2016 when it was 766 in the end of 2014

6. The credit cache account decreased by 96 billion dinars to reach 347.479 billion dinars in total loans and advances.

7. Declined credit contract by 38 billion Dinar to 229,591 billion Dinar

8. The provision for doubtful debts increased by 421 million Dinars to become 45.425 billion at the end of 2015.

9. All the branches of the bank have achieved losses of business in 2015, except the main branch, where it made a profit of 14 billion dinars.
في عام 2004

المادة 31 - المعاملات مع الأشخاص ذوي الصلة وموظفي المصرف

1 - لا يجوز لمجلس الادارة في حالة المصرف المحلي على الانتهاك وştی کاره واحکام المالمیة.

2 - إذا كان الانتهاك متوجهاً في مصرف أو لموظف المصرف رفيع المستوى وسیدو الانتهاك التي تجاوز المبلغ الإجمالي للمنحات المصرفية لجميع الأشخاص ذو الصلة أو إذا كان الانتهاك سببه في تجاوز المبلغ الإجمالي للمنحات المصرفية لجميع الأشخاص ذو الصلة والمستحقة إلى 10% من رأس المال السليم والاحتياطيات السليمة أو نسبة مالية أقل مما تحدها الأنظمة المصرفية العراقية شرط أن تكون النسبة سالفة الذكر تحتوي على أو أقسام مصرف متخصصة في المثل المغاش وحسب رأي البنك المركزي العراقي.

3 - في وقت من الانتهاك فحیف المبلغ الأصلي للمنحات بما لا يقل عن ذلك المبلغ الأساسي أو

4 - إذا كان الانتهاك باكداً وشروط أقل موافقة للمصرف من الأحكام والشروط التي يفرضها المصرف على الجمهور وفقاً للمعاهدات.

5 - إذا لم يكن الانتهاك ماناً بالقدر والأسلوب الذي تحدهما الأنظمة المصرفية العراقية، فيجب على المصرف المحلي أن يتولى الحساب.

6 - لا يجوز للمصرف شراء موجودات من أو بيع موجودات إلى شخص ذو الصلة، أي شخص طبيعي أو موظف أو مسؤول في المصرف أو شخص ذو الصلة.

7 - لا يجوز للمصرف شراء موجودات من شخص ذو الصلة أو موظف مصرف رفيع المستوى، إلا إذا لم يوافق مجلس الادارة في حالة المصرف المحلي على الشروط والشروط المتفق عليها عند الشراء المماثلة.

8 - يجب إبلاغ لجنة مراجعة الحسابات في المصرف فوراً إذا تم إجراء أي قرض يقدمه المصرف لمصرف في حالة المصرف المحلي أو شراء ملكيات في حالة المصرف المحلي أو شراء موجودات.

9 - إذا تم شراء الموجودات أو قرض احتساب קודםها المصرف على الجمهور، إذا لم يوافق مجلس الادارة في حالة المصرف المحلي على الشروط والشروط المتفق عليها عند الشراء المماثلة.

10 - في حالة المصرف المحلي أو شراء ملكيات في حالة المصرف المحلي أو شراء موجودات.

11 - المصرف يظهر بدقة شروط إجراء أي قرض يقدمه المصرف في حالة المصرف المحلي أو شراء ملكيات في حالة المصرف المحلي أو شراء موجودات.

12 - في حالة المصرف المحلي أو شراء ملكيات في حالة المصرف المحلي أو شراء موجودات.

13 - في حالة المصرف المحلي أو شراء ملكيات في حالة المصرف المحلي أو شراء موجودات.

14 - في حالة المصرف المحلي أو شراء ملكيات في حالة المصرف المحلي أو شراء موجودات.

15 - في حالة المصرف المحلي أو شراء ملكيات في حالة المصرف المحلي أو شراء موجودات.

16 - في حالة المصرف المحلي أو شراء ملكيات في حالة المصرف المحلي أو شراء موجودات.
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